This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000846

SIPDIS

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
USPACOM FOR FPA

E.O. 12958: DECL: 07/15/2013
TAGS: EFIN ECON BM
SUBJECT: BURMA'S BANKS: STILL AWAITING SENTENCING

REF: RANGOON 560 AND PREVIOUS

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

¶1. (C) Summary: The situation for some of Burma's largest private banks may have stabilized for the time being, though it is still critical. The government, despite some tinkering around the edges, has still not revealed its vision for the future. We're sure of only two things: the economy will limp along without causing political discontent, and there will be some shell of a private banking sector at the end of the tunnel. End summary.

Banking Situation: A Move out of ICU?

¶2. (C) The government has done little in the past several months to definitively resolve the predicament of the nation's private banking sector. Private bankers tell us that they are still required to report nightly to the government's Private Bank Management Committee detailed information on that day's withdrawals, transfers, and loan repayments. Despite this regular interaction between bankers and regulators, there are apparently no discussions or consultations on root problems or next steps. The government has not moved beyond its March instructions to banks: collect all outstanding loans, bad or good, to repay depositors.

¶3. (C) Despite this uncertain situation, two bankers with whom we spoke said that their banks (both in the top six by deposits) had stabilized, though their condition was still critical. With the current restrictions in place, recovery and normal operations were not possible. These two banks were not extending new credit or taking new deposits, allegedly on the instruction of the Bank Management Committee. However, the two banks had paid out between 50-65 percent of their deposits and recovered around 50-60 percent of outstanding loans. With this, each bank had about an equal amount of remaining deposits and loans trickling in and out. This tenuous balance was being padded by fees earned from a recovering demand for intrabank transfers, now about 40 percent of pre-crisis levels at one large bank, and savings from expanding layoffs and asset sales. The two bankers said they thought this basic stability was the case for the other major private banks as well. However, other sources have told us that Yoma Bank, the country's second largest private bank, was suffering more serious liquidity problems because of difficulties getting loans repaid.

Government's Response: Bad Medicine?

¶4. (C) In early June the Central Bank took steps to tighten practices supposedly being abused by private banks. First, the Central Bank informed all private banks that as of October 1 they would have to repay or transfer to another type of account all call deposit accounts. These call deposit accounts were popular with banks, and depositors, as they offered an annual 4-10 percent interest rate, compounded daily, with no restrictions on withdrawals. A banking source said these accounts were used by banks to entice inflows of "hot" money to mask poor liquidity ratios. A second move by the Central Bank raised the interest rate for outstanding Central Bank credit lines immediately from 11 percent to 13 percent, and demanded repayment of outstanding credit lines ASAP. Again, regulators suspected banks were abusing their lines of credit, with the lower interest rate, to paper over structural problems and fuel irresponsible lending.

¶5. (C) Though both of these moves are sensible, their promulgation at this sensitive time, and with no accompanying assistance or reforms, may cause further hardship to the larger private banks, which hold more call deposits and Central Bank credit. According to statistics, Asia Wealth Bank (the country's largest) has an outstanding 15 billion kyat (about $15 million) line of credit with the Central Bank. Yoma, Kanbawza Bank, and Myanmar Overseas Bank hold 5 billion, 5 billion, and 1.5 billion kyat respectively.

¶6. (C) Despite its latest marginal actions, the government has yet to release a new set of guidelines explaining the future of the private banking sector. There's been no major

new directive since March, when the government refused to bail out the banks and demanded that borrowers immediately repay their loans. For several months bankers and economists have been predicting that these new guidelines will come "next month." However, to date there's been nothing firm, only rumors that the Bank Management Committee had given an extra three to six months for banks to recover their outstanding loans and rebuild their capital base with cash, or other very liquid assets. After that, the rumor goes, the government will issue clean bills of health to those banks that have met the challenge, and dispose, somehow, of those that haven't. The future is uncertain even for those that make the cut, though, with additional rumors that the Central Bank will merge these banks with government or semi-government banks, or hang stringent new operating requirements on survivors. There is speculation that all new loans will have to get Central Bank approval, and that paid-in capital requirements will be much higher.

Business Community Down, But Not Out

¶7. (C) The business community has found a way to get along for five months without a reliable private banking sector. Though bankers report that they are no longer helping out employers with large withdrawals to meet payroll, business community leaders say that most companies are getting by through diversification, the sale of assets, laying off of workers, or cutting salaries. The informal domestic financial network is also helping by picking up some of the slack for credit and fund transfers. The availability of intrabank transfers is also keeping commerce from collapsing entirely. Diversified companies, those with access to black market money or lucrative government contracts (government banks are still operating without difficulty) are also better able to weather the economic storm.

¶8. (C) Also helping the sluggish economy is a relatively stable inflation rate, brought to heel because of the economic slowdown and reduction in both money supply and circulation caused by the banking meltdown. The monthly consumer price index declined three out of the last five months, and held stable in the other two. The unintended consequences of the crisis and the government's reaction have also kept the kyat stable against the dollar, defying pre-crash expectations that the kyat's depreciation would continue unabated.

Throw Away the Crystal Ball

¶9. (C) Prognostication on the banking situation is often a fool's errand. However, we draw two conclusions after five months. First, the banking crisis has caused an economic slowdown and layoffs, but there will be no resulting political upheaval. The informal economy and people's general tolerance for economic misfortune have softened the blows. Second, when the situation is finally resolved, there will be a private banking sector of some shape and size. However, some important questions that remain are: How many banks will be liquidated/merged? How independent will the survivors be? and perhaps most importantly, Will a critical mass of customers come back to the revived banks and risk losing their money once again?
Martinez